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April 15, 2017

Re: Quarter One Updates for Winter 2017

To Our Shareholders:

We at Adidas have never stopped striving towards our ultimate goal on becoming the global leader in the sporting goods industry and with your support, that goal has never been closer. Quarter one for 2017, shows us that we are heading in the right direction. To begin, we have been continuing to outperform within international equity markets. The Adidas AG share continually rises as driven by the release of FY 2016 and FY 2017. Our stock prices this past quarter ended at €178.30, already up 19% compared to December 2016. Additionally, our revenue stream is as expected and we expect to release dividends of €2.00 per share. Finally, 57% of our convertible bonds were converted. The convertible bond closed the quarter at €217.80, well above prior year level of €133.27. Regarding financials, our revenue increased by 16% on a currency neutral basis with operating profit growing by 29% to €632 million. These quarter one statistics prove to be a great start into the year.

Another urgent update we have for you all is regarding a recent marketing issue. Before going into much detail, we suspect potential litigation coming mainly due to our recent ad campaign regarding the new "boost" material. Through a series of ads, we fear that some may be misled by our marketing. We did not explicitly say anything that would classify as false advertising but it may be seen as misleading. No lawsuits have been filed yet, we just needed to inform you all regarding the action we are taking to protect ourselves.

Action Plan:

1. Public Announcement
2. Customer Outreach and Compensation
3. Media Outreach
4. Profitability Proposal

Our mediation plan focuses on being as transparent and as honest as possible. We believe our intentions were clear and don't want to cause any more

confusion. We'll begin our mediation plan with customer outreach. We want to reach out to our customers who have bought the products and explain the confusion. We will offer refunds on the products if they desire but we will also offer them discounts on future purchases. Additionally, we will allow them early access to future releases and events. We truly believe that once they use the product, they will see all of its benefits. We will follow up our customer outreach with a public announcement. The announcement will break down the issue and then explain the timeline of events for our promotions. We'll explain the promotions and what their intentions were. All of the promotions focused on the comfortability of boost and its benefits of being a running shoe. We've performed months of research regarding the "boost" material and its impact reduction capabilities. Although there are health benefits such as improved joint health, we never stated that the shoes were for weight loss. Following our public announcement, we will open up to interviews with major news outlets and publishers of magazines and newspapers. We would like to clarify everything with them in order to stop any false news or accusations from spreading further.

Finally, in order to compensate all the potential refunds and discounts/promotions we are finding ways to increase our revenue these next two quarters. We are looking into advancing some of our deadlines for upcoming releases, especially the Yeezy line with Kanye West, which consistently brings us \$8+ million in revenues. Additionally, we are looking into the expansion of one of our original releases. We re-released the Stan Smith's and they've netted us \$10+ million revenues during the last fiscal year. We predict similar revenues once we re-release the original superstars. We expect both of these releases to cover 90% of our predicted cost for the mediation plan.

This issue should only impact us in the short-term. We expect stock to drop by one to five points, but steadily increase within a week or two once we go through our media outreach. We expect sales of our shoes with "boost" to drop for a bit due to the false news but like our stock, sales will steadily increase. We expect our action plan to be completed with one to two months. I assure you this issue will come and go, if you have any specific questions. Please do not hesitate to reach out.

Sincerely,

Kasper Rørsted  
Chief Executive Officer

**Memorandum**

**adidas**<sup>®</sup>  
GROUP

**To:** All C-Suite Employees of Adidas AG

**From:** Kasper Rørsted - CEO

**Subject:** Quarterly Updates

**Date:** March 31, 2017

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### **Marketing Updates**

I want to begin by thanking you gentlemen for the work this past quarter. All our numbers exceeded forecasts and with our upcoming large-scale releases we expect those numbers to increase further. I recently spoke with the head of the marketing department and she briefed me regarding an issue that has recently come up. During an ad campaign for our new material “boost,” which had more than 25+ features, commercials and promotions, one of the claims one could make was that this technology could accelerate weight loss. We fear litigation because our promotions may have been misleading for some. All of our promotions focused strictly on the comfortability of the shoe rather than any potential nutritional benefits. During the next meeting, we will formulate a mediation plan to prepare in case of any litigation but below there is further detail regarding the issue.

### **Promotional Details**

Within the first week of Q3 last year we began to roll out our first commercials regarding the new “boost” material for our sneakers. After that we began putting more advertisements in many relevant magazines and retail locations. Once we were able to get promotions out to the public, we began to reach out to our most active customers, influencers, and also our celebrity/athlete endorsers. We had two large scale events in New York and Los Angeles where we unveiled the first official look of our Ultra Boost line and also allowed attendees to try on the shoe. Through this event we established a lot of attention and popularity and the reserves for buying the shoe sky rocketed. All of our promotions featured athletes training with the shoe whether that be running or exercising. We highlighted benefits such as impact reduction on one's joints but never anything related to weight-loss. Although there may be health benefits to the shoe if the user were to live an active lifestyle, there is no direct cause-effect relationship between the shoe and weight-loss. Around the beginning of Q1 this year our customer service representatives responsible of covering boost information/complaints began receiving a large influx of questions regarding weight-loss. This was alarmed by our automatic system as something to look into.

### **Mediation Plan Draft**

I am listing a few ideas that I believe are necessary but during our next meeting we will finalize and add additional items where we all see fit. In this specific situation, I believe we need to put the customers who purchased the product on top of our priority list so we need to get in touch with them as soon as

possible. We will ask feedback regarding the issue and if they are unhappy with the purchase we will allow returns while offering additional discounts for different models. We will issue store credit for all of the returns to ensure that customers can find a model they are happy with. Additionally, I believe we need to address the public with an announcement after we tell our customers. We also need to reach out to major news outlets to ensure no false reports spreads. Once this is all hashed out we need to have more events that allow customers to try the shoe on. All their opinions will change once they are able to put the shoes on their own feet. Come to our next meeting with additional ideas so we may finalize the plan.

### **Forecasted Impact**

As of right now we can only speculate what this issue may lead to in terms of our stock numbers and revenues for our newly released sneakers. We suspect that numbers will initially drop following the announcement but slowly rise as the rest of our mediation plan goes underway. I have already contacted our analysts on initial thoughts and that's all they were able to provide me. Within the next week we should get more concrete numbers. Before we start the plan, we will inform our shareholders detailing our exact plan of action and forecasted numbers/details. The impact will be only in the short term and everything should be solved before Q3 this year. Like I said earlier, our outstanding numbers this past quarter has allotted us some wiggle room and were still on track.

If you have any additional questions or details regarding the issue bring them to our next meeting. I anticipate solving this issue by this time next week.